Cancorp

KEG'N CLEAVER
STEAK AND LOBSTER

KEG RESTAURANTS LTD. and SUBSIDIARIES

Consolidated Financial Statements as of December 31, 1974 and 1973 Together with Auditor's Report

To the Shareholders of

Keg Restaurants Ltd.:

We have examined the consolidated balance sheet of KEG RESTAURANTS LTD. (a British Columbia company) and subsidiaries as of December 31, 1974 and 1973, and the consolidated statements of income and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the financial position of Keg Restaurants Ltd. and subsidiaries as of December 31, 1974 and 1973, and the results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

ARTHUR ANDERSEN & CO.
Chartered Accountants

Vancouver, Canada
March 12, 1975.

KEG RESTAURANTS LTD.

CONSOLIDATED BALANCE SHEET--DECEMBER 31, 1974 AND 1973

A S S E T S (NOTE 3)

	1974	1973
CURRENT ASSETS:		
Cash	$ 28,578	$ 3,200
Inventory, at the lower of average or replacement cost	345,040	80,333
Advances receivable-		
Joint ventures	80,903	64,701
Shareholder	36,924	29,746
Other	141,069	28,387
Prepaid expenses	35,538	2,692
Total current assets	$ 668,052	$ 209,059
INVESTMENT IN JOINT VENTURES, at equity	$ 345,782	$ 182,287
PROPERTY, PLANT AND EQUIPMENT, at cost:		
Land and buildings	$ 213,251	$ 534,327
Leasehold improvements	1,935,293	1,001,340
Equipment and furnishings	648,930	365,664
	$ 2,797,474	$ 1,901,331
Less- Accumulated depreciation	247,332	110,784
	$ 2,550,142	$ 1,790,547
DEFERRED COSTS, net of amortization:		
Restaurant pre-operating	$ 119,509	$ 64,124
Regional development	94,983	41,552
Other	14,440	20,523
	$ 228,932	$ 126,199
	$ 3,792,908	$ 2,308,092

On behalf of the Board:

G.M. Tidball
.... Director

H.P. Capozzi
.... Director

The accompanying notes are an integral par

L I A B I L I T I E S

	1974	1973
CURRENT LIABILITIES:		
Bank overdraft	$ 43,415	$ -
Bank loan	200,000	-
Trade accounts payable	715,785	157,568
Accrued liabilities	131,773	72,431
Accounts payable for plant and equipment additions	32,163	114,973
Income taxes payable (Note 5)	2,060	13,763
Current portion of long-term debt (Note 3)	200,444	9,100
First preference shares redeemable (Note 2)	51,041	-
Total current liabilities	$ 1,376,681	$ 367,835
LONG-TERM DEBT (Note 3)	$ 815,451	$ 806,624
DEFERRED INCOME TAXES (Note 5)	$ 355,056	$ 154,383
COMMITMENTS AND CONTINGENCIES (Note 4)		
SHAREHOLDERS' EQUITY:		
Share capital (Notes 2 and 4)	$ 874,478	$ 722,519
Retained earnings-		
Balance, beginning of year	$ 256,731	$ 63,027
Add- Net income	114,511	193,704
Balance, end of year	$ 371,242	$ 256,731
	$ 1,245,720	$ 979,250
	$ 3,792,908	$ 2,308,092

f this consolidated financial statement.

KEG RESTAURANTS LTD. — Vancouver

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 1974 AND 1973

	1974	1973
SALES	$ 8,811,246	$ 4,542,396
COST OF SALES	8,004,005	3,920,003
Gross income	$ 807,241	$ 622,393
ADMINISTRATIVE EXPENSE:		
General	$ 235,796	$ 124,908
Regional offices	270,255	101,463
Interest on long-term debt	101,066	28,101
	$ 607,117	$ 254,472
Income before provision for income taxes, gain on sale of building and minority interest	$ 200,124	$ 367,921
PROVISION FOR INCOME TAXES (Note 5)	136,613	154,142
Income before gain on sale of building and minority interest	$ 63,511	$ 213,779
GAIN ON SALE OF BUILDING, net of income taxes of $49,000	51,000	-
Income before minority interest	$ 114,511	$ 213,779
MINORITY INTEREST	-	20,075
Net income	$ 114,511	$ 193,704
CONSOLIDATED EARNINGS PER SHARE (Note 6):		
Income before gain on sale of building	$ .03	$ .11
Net income	$ .06	$ .11

The accompanying notes are an integral part of this consolidated financial statement.

KEG RESTAURANTS LTD.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEARS ENDED DECEMBER 31, 1974 AND 1973

	1974	1973
SOURCE OF WORKING CAPITAL:		
Operations-		
Income before gain on sale of building and minority interest	$ 63,511	$ 213,779
Charges not involving the outlay of working capital-		
Depreciation	136,548	75,773
Amortization of deferred costs	56,775	26,659
Deferred income taxes	151,673	132,883
Joint venture losses	63,264	6,159
	$ 471,771	$ 455,253
Proceeds on sale of building	354,900	-
Debenture, long-term portion	591,000	-
Proceeds of share issue-		
Common shares	-	403,336
First preference shares	-	138,973
Second preference shares	203,000	-
Bank loan	175,000	592,089
Mortgages	71,000	65,000
Other	5,480	5,501
	$ 1,872,151	$ 1,660,152
APPLICATION OF WORKING CAPITAL:		
Additions to property, plant and equipment	$ 1,151,043	$ 966,703
Repayment of bank loan	641,678	-
Investment in and advances to Joint ventures	226,759	188,446
Repayment on mortgages and agreements	190,035	163,834
Deferred costs-		
Restaurant pre-operating	79,089	27,232
Regional development and other	82,359	49,351
First preference shares to be redeemed currently	51,041	-
Minority interest acquired through issue of common shares	-	54,292
	$ 2,422,004	$ 1,449,858
Increase (decrease) in working capital	$ (549,853)	$ 210,294
WORKING CAPITAL (DEFICIENCY), BEGINNING OF YEAR	(158,776)	(369,070)
WORKING CAPITAL (DEFICIENCY), END OF YEAR	$ (708,629)	$ (158,776)

The accompanying notes are an integral part of this consolidated financial statement.

KEG RESTAURANTS LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1974

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Consolidation Policy

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly-owned. The Company's proportionate share of revenue and expenses of 50% owned joint ventures is reflected in the consolidated statement of income. The Company's share of the joint venture operations was a loss of $63,264 in 1974 and a loss of $6,159 in 1973.

During 1973, the Company acquired the minority interest held in its subsidiaries through the issue of additional common shares. Part of this acquisition was on the basis that common shares of the Company would be issued according to a formula based on income of the subsidiaries for any of the years ending December 31, 1973, 1974 or 1975, as selected by the minority shareholders. 1974 has been selected as the determining year for a portion of these shares and as a result 24,815 common shares will be issued in 1975. A further 39,377 common shares would have been issued if the remainder were to be issued on the basis of the greater of 1973 or 1974 as the determining years. The acquisition of the minority interest in the above subsidiaries has been accounted for as a purchase, and accordingly their share of the subsidiaries' incomes to June 1, 1973 (the effective date of the acquisition), has been included in the consolidated statement of income as minority interest.

(b) Depreciation and Amortization of Plant and Equipment

Depreciation is calculated on a straight-line basis over 20 years for buildings and over 10 years for equipment and furnishings. Leasehold improvements are amortized on a straight-line basis over the term of the lease plus options, to a maximum of 20 years.

(c) Restaurant Pre-Operating Costs

In connection with the opening of new restaurants, certain pre-operating costs such as travel, advertising and training, are incurred. These costs are deferred and amortized on a straight-line basis over a five year period from the date of commencement of operations.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(d) Regional Development Costs

The development costs of new regions incurred prior to the opening of the first restaurant in the region are deferred and amortized on a straight-line basis over a five year period from the date of commencement of operations.

(e) Translation of Foreign Currencies

The monetary assets and liabilities of the Company's U.S. subsidiary have been translated at the approximate year end rate of exchange. Non-monetary assets acquired during the year are translated at the average exchange rate during the year of acquisition. Income accounts are translated at the average exchange rate for the year.

2. SHARE CAPITAL

	1974	1973
Common shares	$ 583,546	$ 583,546
First preference shares	87,932	138,973
Second preference shares	203,000	-
	$ 874,478	$ 722,519

(a) Common Shares

There are 3,000,000 no par value common shares authorized. The share transactions since December 31, 1972 are as follows:

	Shares	Amount
Issued and outstanding, December 31, 1972	1,516,002	$ 180,210
Issued during 1973-		
For cash, net of expenses	250,000	350,600
For acquisition of minority interest (Note 1(a))	133,330	52,736
Issued and outstanding, December 31, 1973 and 1974	1,899,332	$ 583,546
For acquisition of minority interest (Note 1(a))	64,192	-
	1,963,524	$ 583,546

2. SHARE CAPITAL (Cont'd)

(a) Common Shares (Cont'd)

In connection with the issue of the 250,000 shares for cash in 1973, the holders of 1,316,000 shares of the Company agreed that if the net earnings per share (calculated on a fully diluted basis) of the Company do not reach \$.175 per share for at least one of the years ended December 31, 1973, 1974 or 1975, then on or before June 30, 1976, they would surrender to the Company by way of a gift, that number of shares that bear the same proportion of the 1,316,000 shares now held by the shareholders as the short-fall in earnings per share bears to \$.175. The short-fall in earnings per share shall mean the difference in earnings per share between the larger of:

(i) the earnings per share achieved by the Company during the fiscal year ending December 31, 1975, or

(ii) the highest average earnings per share achieved by the Company during two of the three fiscal years ending December 31, 1973, 1974 or 1975,

and earnings per share of \$.175.

The Company has granted options to certain joint venture partners and licencees to exchange their interests in the joint ventures or restaurants operated under licence for common shares of the Company based upon the earnings of the joint ventures or licenced restaurant.

In connection with the issuance of the debenture (Note 4) the Company will not, without the consent of the holder of the debenture, issue any further common shares for less than \$1.75 per share.

(b) First Preference Shares

In June 1973, the authorized capital of the Company was increased by the creation of 250,000 non-voting, participating (as to dividends) redeemable, first preference shares with a par value of \$1 each. 138,973 first preference shares were issued during 1973 in exchange for notes plus accrued interest thereon aggregating \$138,973 payable to shareholders owning the minority interest referred to in Note 1(a).

The first preference shares are redeemable at par by March 31, 1976, or at any time prior thereto. If the shareholders require redemption prior to March 31, 1976, they will also be required to exercise their option for common shares to be issued as outlined in Note 1(a). 138,973 shares were outstanding as of December 31, 1973 and 1974. 51,041 shares were redeemed in March, 1975 and are shown on the consolidated balance sheet as a current liability.

In connection with the issuance of second preference shares, the Company has agreed not to issue any further first preference shares.

2. SHARE CAPITAL (Cont'd)

(c) Second Preference Shares

In June 1974, the authorized capital of the Company was increased by the creation of 501,500 non-voting, convertible, 8-1/2%, cumulative, redeemable second preference shares with a par value of $2 each. 101,500 second preference shares were issued during 1974 for $203,000.

No dividends were declared on the second preference shares in 1974. As of December 31, 1974, there was $4,048 in unpaid cumulative dividends.

The second preference shares are convertible at any time up to February 15, 1980, into common shares of the Company on the basis of approximately 2.7 common shares for each second preference share converted (275,000 total common shares issued if all second preference shares are converted). 24.63% of the then outstanding second preference shares shall be redeemed on May 15, 1979, 32.68% on August 15, 1979 and 48.54% on November 15, 1979 and the balance on February 15, 1980.

3. LONG-TERM DEBT

	1974		1973	
	Long-Term	Due Within One Year	Long-Term	Due Within One Year
Debenture	$ 591,000	$ 160,000	$ -	$ -
Demand bank loan	-	-	592,089	-
Term bank loan	125,415	35,000	-	-
Mortgages	71,000	-	186,535	5,600
Other	28,036	5,444	28,000	3,500
	$ 815,451	$ 200,444	$ 806,624	$ 9,100

The debenture bears interest at the rate of 12.9% and is repayable at $20,000 per month commencing on May 15, 1975. It is secured by a first floating charge on all assets of the Company and its Canadian subsidiaries which charge does not hinder the Company or its subsidiaries from borrowing from its bankers on the security of accounts receivable or inventories, a first specific charge on all fixed assets excluding land and buildings of the Company's Canadian subsidiaries and a guarantee of a shareholder to the extent of $300,000.

3. LONG-TERM DEBT (Cont'd)

Under the terms of the debenture, the Company and its subsidiaries are not permitted, without the approval of the debenture-holder, to guarantee any obligations except those of the Company or its subsidiaries.

The Company is required, under the terms of the debenture, to maintain consolidated current assets at least equal to the amount of its consolidated current liabilities, excluding the current portion of long-term debt and income taxes. This requirement has been waived until May 31, 1975.

The term bank loan is repayable at $2,916 per month and bears interest at 1-1/2% over the prime lending rate of the bank. It is secured by certain equipment and furnishings of the Company's U.S. subsidiary.

The $71,000 mortgage bears interest at the rate of 11-1/2%. Only interest payments are required until maturity, May 1, 1976.

4. COMMITMENTS AND CONTINGENCIES

(a) The Company and its subsidiaries have lease commitments on various buildings varying in terms from two to thirty years. The aggregate annual rentals payable on these leases, excluding additional payments based on sales, will be approximately as follows over the next ten years:

1975	$206,000
1976	$185,000
1977	$181,000
1978	$171,000
1979	$169,000
1980	$171,000
1981	$162,000
1982	$143,000
1983	$127,000
1984	$118,000

The Company has guaranteed the lease of a licenced restaurant. The annual rent payable by the licencee under this lease is approximately $15,000 per year over the next five years.

The joint ventures, in which the Company is a participant, have lease commitments of ten years each on various buildings. The aggregate annual rentals payable on these leases, excluding additional payments based on sales, will be approximately $67,500 per year over the next five years.

(b) The Company has guaranteed bank loans of joint ventures aggregating $133,000.

4. COMMITMENTS AND CONTINGENCIES (Cont'd)

(c) In consideration for personal guarantees of a bank line of credit for the Company, the Company granted a director and a company in which a director has a beneficial interest, options to purchase up to 100,000 common shares of the Company at the following prices according to the date exercised:

September 15, 1974 to September 14, 1975	$1.75/share
September 15, 1975 to September 14, 1976	$2.00/share

In connection with the issuance of the debenture, and the second preference shares, options to purchase common shares of the Company were granted as follows:

122,691 shares @ $1.25/share

These options expire on the earlier of February 15, 1980, or the redemption of the second preference shares and the repayment of the debenture.

5. LOSSES NOT UTILIZED IN COMPUTING THE INCOME TAX PROVISION FOR 1974

The Company's wholly-owned U.S. subsidiary has incurred losses of approximately $67,000 which can be offset against future taxable income of the subsidiary for a period up to five years. Also a corporate joint venture has incurred losses, of which the Company's proportionate share is approximately $25,000, which can be offset against future taxable income of the corporate joint venture for a period up to five years.

6. CONSOLIDATED EARNINGS PER SHARE

The earnings per share are calculated using the weighted monthly average number of shares outstanding during the respective periods. The shares to be issued as a result of the purchase of the minority interest, as described in Note 2, were included in the calculation as if they had been issued June 1, 1973. The unpaid cumulative dividends of $4,048 on the second preference shares were deducted in calculating the earnings per share for 1974.

The exercise of options referred to in Notes 2 and 4 and the conversion privilege on the second preference shares outlined in Note 2 would not have a significant effect on the calculation of consolidated earnings per share.

7. DIRECTORS' AND OFFICERS' REMUNERATION

The aggregate remuneration paid to the directors and senior officers of the Company during the year was $145,344.

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